Graham Corporation F4Q09 (Qtr End 03/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) Your first question comes from Richard Hoss - Roth Capital Partners LLC.

Richard Hoss - Roth Capital Partners LLC

Jim, you talked about the new order environment being fairly stable and comparable to years past, or at least the proposal level I think. What's keeping people from signing contracts? Is it credit? Is it uncertainty and energy markets? And what's the view on project costs and the expectations for those, to decrease further or to stabilize?

James R. Lines

Hi Rick. What we're hearing from our customers is the project costs still remain a problem relative to the price of oil, and that's affecting the return on investments for these massive projects. It's believed by our customers that the costs for the projects will continue to come down. They've come down somewhat, I'd say between 15 to 20% over the last six months. And they anticipate they will come down further. In addition more of a short term issue is what does the demand profile look like, refinery utilization as an example is low compared to where it had been last year or two years ago, so there is some capacity within the refinery to soak up additional demand before investment is needed. But again we continue to hear long term from our customers that investments need to be made to keep up with increasing demand for energy related products, and this is a short term issue that will right itself over time.

Richard Hoss - Roth Capital Partners LLC

As far as gross margins go, you gave a range of 28% to 31%. How much is the decrease attributable to bidding on less profitable projects?

James R. Lines

If you think about the sales mix as Jeff described it becoming more weighted toward international. We've talked in the past that sales mix has an impact on gross margin. U.S. projects, in particular U.S. refining and petrochemical projects have better gross margin potential than Asian projects. We think the recovery will be started in the Middle East and Asia, then followed by South America, so there is a mix component there that's affecting the margin potential. In addition, in an environment where there are fewer projects proceeding at a given point in time, the competitive landscape becomes fiercer. And that has an effect on margin as well. So there’s two aspects to it. One is geographic sales mix, the other is the selling environment at this particular point in time.